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2004



Montana Board of Housing



"A man travels the world over in search of what he needs
and returns home to find it."
Harold B. Lee

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Vision

To provide decent, safe, sanitary and affordable housing for lower-income individuals and families in the state of Montana.

We reach our vision

By issuing tax-exempt bonds, administering federal housing programs and working in partnership with many other housing providers throughout Montana.

Our Partners

Private Enterprise
Nonprofit Housing Organizations
Governmental Entities

Our History

The Montana Board of Housing (MBOH) was created by the Montana Housing Act of 1975. The MBOH is an agency of the state and operates within the Department of Commerce for administrative purposes.

Under the Housing Act, the MBOH does not receive appropriations from the state's general fund and is completely self-supporting. Substantially all of the funds for MBOH operations and programs are provided by the private sector through the sale of tax-exempt bonds.



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Equal Opportunity Lender

The MBOH works in partnership with:

Private Enterprise
FANNIE MAE
Brokers sell bonds issued by the MBOH
Realtors match homebuyers with MBOH financing
Banks and real estate lenders originate loans for the MBOH
Builders construct homes for Montanans with MBOH financing
Developers and contractors build multifamily complexes

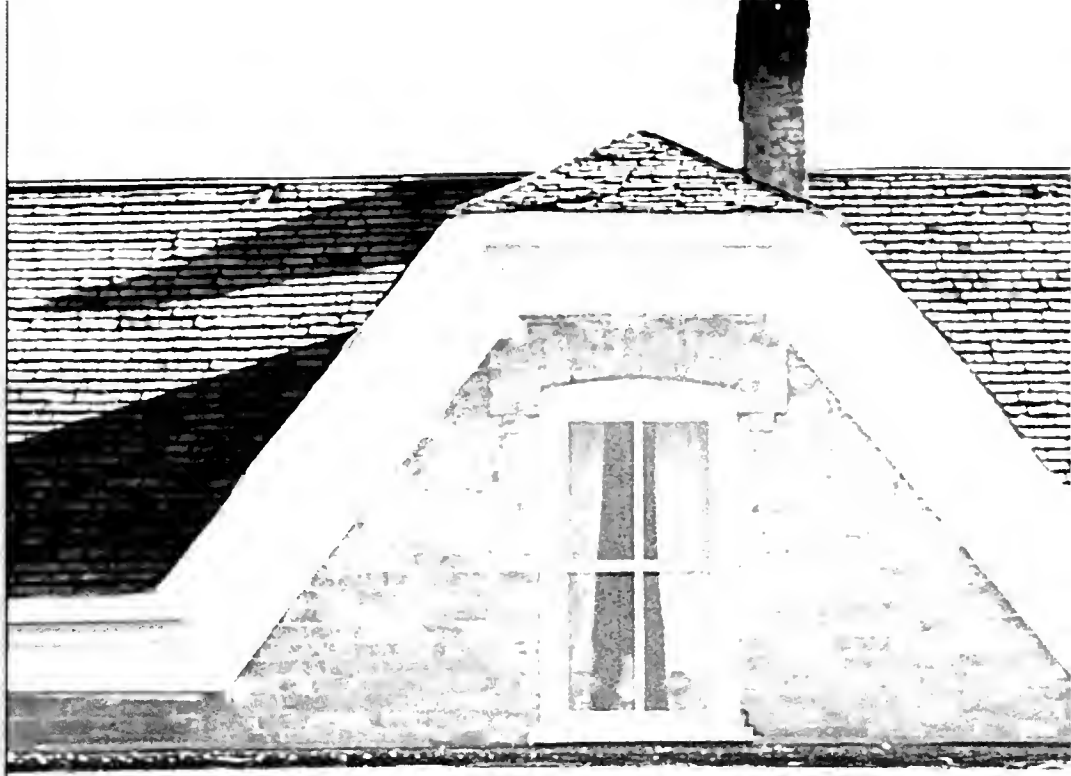
Nonprofit Housing Organizations that target special populations, provide homeownership training and assist with down payment and closing costs.

AWARE Inc.
Bear Paw Development
Glacier Affordable Housing Foundation
Habitat for Humanity
HomeWORD
Human Resource Councils
Montana Home Choice Coalition
Montana HomeOwnership Network, Inc.
Neighborhood Housing Services
Western Montana Mental Health Center

Governmental Entities

Department of Veterans Affairs (VA)
Federal Housing Administration (FHA)
Internal Revenue Service (IRS) - provides authority for bond issuance and allocation of tax credits
Montana cities (Billings, Bozeman, Bridger, Butte, Glendive, Great Falls, Havre, Helena, Kalispell, Laurel, Lewistown, Livingston, Missoula, Ronan, Shelby, Terry)
Montana counties (Lake, Missoula, Ravalli, Richland, Silver Bow)
Montana public housing authorities
Montana tribal housing organizations
U.S. Department of Agriculture Rural Development (USDA/RD)
U.S. Department of Housing and Urban Development (HUD)

Since 1977, the MBOH leveraged over \$616 million in private and federal dollars through these partnerships.





Message *from the Governor*

*D*ear Friends,

The Montana Board of Housing has improved the lives of many Montanans by providing low-cost, flexible financing for over 40,000 families. First-time homebuyers, single parents, senior citizens and those with disabilities and special needs have all benefited from the housing programs provided by the MBOH.

The economic benefits provided by the MBOH are substantial. Access to affordable housing is a key issue considered by businesses looking at expansion or relocation. It helps them place a value on the quality of life provided by a community.

In 2004, the MBOH invested \$175 million in housing for over 2,000 Montana families by financing home loans and allocating tax credits to developers. Their efforts also created over 4,000 jobs for our citizens.

Since 1977, the MBOH has worked with private enterprise, nonprofit housing organizations and governmental entities to leverage over \$616 million in private and federal dollars to benefit our great state.

The Montana Board of Housing has lived up to the founding expectations by demonstrating that housing is economic development – it creates jobs, stabilizes families and enriches communities.

Governor Brian Schweitzer





Message

from the Chairman and Executive Director

*W*e are pleased to present the Annual Report and Financial Statements of the Montana Board of Housing (MBOH) for fiscal year 2004. This report has been redesigned for easier reading. It now includes a compact disk at the back, which contains audited financial statements and detailed data from each of our programs.

This was a year marked by solid performance and continued innovation. We are proud to report the MBOH invested \$174,671,271 in housing for 2,007 Montana families. MBOH financing also created 4,142 new jobs for Montanans.

This year we continued our commitment to hold monthly meetings at a variety of sites across the state. We found this to be an excellent way to understand the different needs of Montana's communities and to provide information to those interested in participating in our programs. We will continue this commitment next year.

As a result of our constant search for new ideas, our peers at the National Council of State Housing Agencies annual conference presented us with the top award for our Montana Housing Solutions Plan Book (Plan Book). We were honored by this acknowledgement. We were also pleased that the Plan Book, which is a primer for first-time homebuilders, was so well received by Montana audiences.

By any measure, our MBOH programs are a huge success. Our success is made possible because our partners - public, private and nonprofit - share our strong commitment to affordable housing. Our partners also create excellent public access to our programs.

These partnerships have stood the test of time. Since 1977, we have worked together to serve nearly 40,000 Montana families by financing almost \$2.5 billion in affordable homeownership through 280 banks and real estate offices. Together, we have provided competitive, affordable housing financing to every city, town and county in Montana.

We are proud to have served Montana families in 2004, and we look forward to a successful 2005.

Chairman Bob Thomas

Executive Director Bruce Brensdal



Bob Thomas
Chairman



Bruce Brensdal
Executive Director



Board *of Directors*

The seven-member board of directors is appointed by the governor and subject to confirmation by the state Senate. The terms of the majority of the board members coincide with the four-year term of the governor. The remaining board members serve four-year terms that expire in the middle of the governor's term.

The board members elect officers. Each board member serves until a successor is appointed and confirmed by the state Senate.

The board of directors provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates Montana Board of Housing programs. The commitment of time and energy by board members has resulted in an improved quality of life for thousands of Montana citizens. The leadership of the board is vital to the MBOH's ability to meet Montana's housing needs.

In fiscal year 2004, the board provided over \$154 million in mortgage financing to help 1,701 families obtain the dream of homeownership. The board also allocated \$2.2 million in low income housing tax credits, which generated \$17.6 million in project dollars for 252 units of rental housing.

Chairman Bob Thomas is a retired insurance agency owner from Stevensville, Montana, and a graduate of the University of Montana. Chairman Thomas currently works with the Childhood Language Disorder Clinic at the University of Montana. He was appointed to the board in 1991 and served as its chairman since 1993.

Vice Chairman Robert Savage is an attorney with the Savage Law Firm in Sidney, Montana, and has a Bachelor of Arts degree and a Doctor of Jurisprudence degree from the University of Montana. Vice Chairman Savage is a past director and president of the National Conference of State Housing Boards, which is based in Washington, D.C. Vice Chairman Savage has served on the board since 1993.

Secretary William Oser is a retired certified life insurance underwriter and former employee of the Bureau of Reclamation and Shell Oil. Secretary Oser is currently involved in the business community in Billings, Montana. Secretary Oser has served on the board since 1993.

Tom Welch is the chief executive officer and president of Pioneer Federal Savings and Loan in Dillon, Montana. He is actively involved in local community organizations. Mr. Welch is a Montana native and a graduate of the University of Montana. He has served on the board since 1997.

Steve Redinger is the president and chief executive officer of Intermountain Mortgage, which has eight offices across Montana. Under Mr. Redinger's leadership, Intermountain Mortgage has become the state's largest mortgage banking firm. Mr. Redinger has served on the board since 2001.

Susan Moyer is the community development director for the city of Kalispell. She has spent her 25-year career with the city addressing affordable and adequate housing issues through renovation or new construction projects. Ms. Moyer has served on the board since 2003.

Judy Glendenning has worked as a realtor since 1978. She currently works as a broker with Century 21 Heritage Realty in Helena. Ms. Glendenning, a Montana native, is active on local and state realtor boards. Ms. Glendenning has served on the board since 2003.

Board Members

Standing (left to right)

Robert Savage

Steve Redinger

Tom Welch

Judy Glendenning

Susan Moyer

Pat Melby

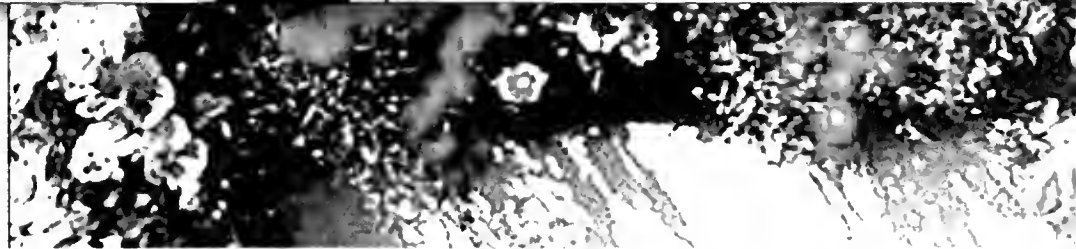
(general counsel)

Seated (left to right)

Bruce Brensdal

Bob Thomas

Bill Oser





Staff

Executive

Executive

(Left to right)

Bruce Brensdal
Jeannie Huntley
Diana Hall
Kellie Lynch



Homeownership Program

(Back)

Will Lee
Doug Jensen
Bob Morgan
Charles Brown

(Front)

Greg Bryan
Jeannene Maas

Multifamily Program

(Left to right)

Lance Sekora
Gerald Watne
Mary Bair
Mathew Rude
Justin Schedel

Multifamily Program

Accounting

(Back)

Becky Johnson
Chris Bullman
Vicki Bauer

(Front)

Scott Hoversland
Joice Franzen



Homeownership Program



Accounting





Legal & Professional Services

Board General Counsel

Luxan and Murfitt
Helena, Montana

Independent Auditor

Legislative Audit Division
Helena, Montana

Board Bond Counsel

Kutak Rock
Omaha, Nebraska

Investment Banking Team

UBS Financial Services Inc.
San Francisco, California

D. A. Davidson & Co.
Great Falls, Montana

Merrill Lynch & Co.
New York, New York

RBC Dain Rauscher, Inc.
Minneapolis, Minnesota

Piper Jaffray & Co.
Minneapolis, Minnesota

Trustees

U.S. Bank
Wells Fargo Bank





Touching the Invisible

2004 Economic Benefits Provided by the Montana Board of Housing

The housing programs at the Montana Board of Housing provide visible benefits to communities throughout the state by providing homes for Montana families and the new construction of affordable housing.

During the construction phase, it's easy to pinpoint the economic benefits of construction jobs. It's also clear that new homes are places for families to build equity and better lives.

What is less clear are the ripple effects housing program expenditures have within Montana communities, as well as the number of businesses and jobs that are supported by housing programs.

In order to accurately assess the effectiveness of Montana's housing programs and their impact on Montana's economy, an assessment of the MBOH's overall economic benefits to Montana was undertaken by the Center for Applied Economic Research (CAER) at Montana State University - Billings.

According to the data from the CAER report, Montana housing programs substantially added to the economic health of Montana in 2004. For example, the MBOH Homeownership Program, which helps Montana families purchase homes, was responsible for over \$222 million of economic activity in the state. To put this in perspective, for every dollar directly expended in program funds, another \$1.44 in sales was generated in local communities. These sales were generated in businesses not directly related to housing (indirect) and by businesses that provide consumer goods (induced).

Impact On Jobs

The impact on jobs within the state is also more significant than many realize. In 2004, MBOH housing programs were responsible for more than 4,142 full-time jobs.

Jobs in industries directly affected by housing program expenditures accounted for 2,654 new, full-time Montana jobs.

Jobs in industries that do business with direct housing-related industries accounted for 453 new, indirect jobs. Those jobs were in insurance, computer-related services, business support services or wholesale trade.

Jobs generated from increased spending of incomes by workers, families and business owners accounted for 663 new, full-time jobs in Montana. In 2004, those jobs were created in performing arts, health care, education, retail sales or food service establishments.

4,142

full-time jobs were created by
MBOH programs in 2004

Increased Tax Collections

Another benefit that occurs as a result of the MBOH Homeownership Program is the increased level of tax collections by both state and local governments. Although it is assumed property tax collections will rise as new property is added to the tax roles, the fact that other tax collections will also rise is often overlooked.



The following table summarizes the changes in tax collections that have occurred in 2004 as a result of MBOH Homeownership Program expenditures.

Tax Benefits to Montana's State and Local Governments by MBOH Homeownership Program in 2004.

Households	\$1,306,424
Corporations	\$977,280
Indirect Business Taxes	\$19,216,142
Total State / Local Taxes	\$21,499,846

In addition to the above-mentioned benefits, additional tax benefits are derived by state and local governments from the Low Income Housing Tax Credit (LIHTC) program, which is administered by the MBOH.

The LIHTC program allows qualified developers and owners of qualified housing to receive an annual federal tax credit for 10 years based on eligible costs for acquiring, rehabilitating or constructing housing units provided for low income families. The MBOH typically has \$2 million in LIHTCs to allocate on an annual basis.

According to the CAER report, the LIHTC tax credits will generate direct, indirect and induced effects within the economy. The report states every dollar in returned tax through the low-income housing tax credit generates an additional 45 cents worth of income and spending in the state economy.

The following graphic summarizes the economic effect of the 2004 tax credit program. Another aspect of this tax credit program is that it actually generates additional state and local tax revenues as a result of the higher levels of purchases, wages and spending. Additional state and local government tax revenues are summarized in the right-hand column.

Tax Benefits to Montana's State and Local Governments by MBOH Low Income Housing Tax Credit Program in 2004.

Direct	\$2,220,623
Indirect	\$436,142
Induced	\$577,388
Total	\$3,234,152
Taxes Generated	\$435,297

Summary

It is clear that programs at the Montana Board of Housing provide substantial economic benefits to the state. The programs provide critical assistance to those needing affordable housing, generate thousands of jobs and provide millions in revenue to Montana.



Homeownership Program

(formerly the Single-Family Revenue Bond Program)

Affordable Mortgages for Montana's Homebuyers

The Montana Homeownership Program had a banner year in fiscal year 2004. Propelled by lower interest rates, the program helped 1,701 Montana families realize the dream of homeownership by providing \$154 million in financing. The number of families served and the amount of financing provided was the largest in the history of the program. Since 1977, the Montana Homeownership Program has helped 35,000 Montana families become homeowners.

The home financing program is exclusively supported from the sale of tax-exempt mortgage revenue bonds issued periodically by the board. The tax-exempt status allows the agency to pass on the interest savings to lower income Montana families in the form of low-interest home loans.

Homeownership Programs at the Montana Board of Housing include:

- The Bond Program, which provides below market, low or no down payment, fixed rate mortgages to qualified homebuyers.
- The Mortgage Credit Certificate Program, which helps qualified homebuyers reduce their federal income taxes. In fiscal year 2004, 14 families were able to obtain homeownership with \$1.5 million in financing from this program.
- Several Set-aside Programs, which help Montana families who can't qualify for loans through the Bond Program. In fiscal year 2004, 173 families in 36 communities benefited from \$10.4 million in home financing through these programs. Since 1986, 3,560 families have achieved homeownership with \$169 million in set-aside/recycled funds from these programs.

More detailed information about the Mortgage Credit Certificate Program and the MBOH Set-aside Programs can be found on the attached disk.





Multifamily Program

Creative Financing Options for Developers of Affordable Housing

The Multifamily Program provides several financing options to help sponsors and developers produce affordable housing for Montana residents.

Low Income Housing Tax Credits

Low Income Housing Tax Credits provide for the retention, rehabilitation and construction of low-income rental housing. Through tax credits, which are administered by the Multifamily Program, developers and owners of qualified housing projects receive an annual federal tax credit for 10 years. The eligible costs associated with building the projects for low-income Montana families determine the tax credit allocations.

Since the inception of the program in 1987, tax credits have been used in the rehabilitation and production of 4,387 low-income housing units in 157 separate Montana projects. The total construction costs of the 157 projects were nearly \$279 million.

In fiscal year 2004, \$2.2 million in tax credits were allocated to assist in the development of 10 projects containing 252 low-income housing units. Total development costs of the projects are projected to be over \$28 million.

Revolving Loan Account

The Revolving Loan Account (RLA) was created by the Legislature to provide funding for projects that typically need that last, small piece of financing to make them feasible. A component of the RLA, the Temporary Assistance to Needy Families Program, served 24 families in eight Montana communities by providing \$253,225 in financing to buy homes in 2004. Also in fiscal year 2004,

66 rental units were rehabilitated or constructed in three Montana communities with a total of \$508,000 in revolving loans from this program.

Other Multifamily Programs

General Obligation Loan Program

The General Obligation (GO) Loan Program is a source of permanent mortgage financing for affordable rental housing that is identical to the Risk Share Loan Program (RSL) mentioned below with one exception, there is no mortgage insurance requirement. GO loans are typically available to smaller, multifamily projects that receive multiple sources of funding through other programs.

Risk Share Loan Program

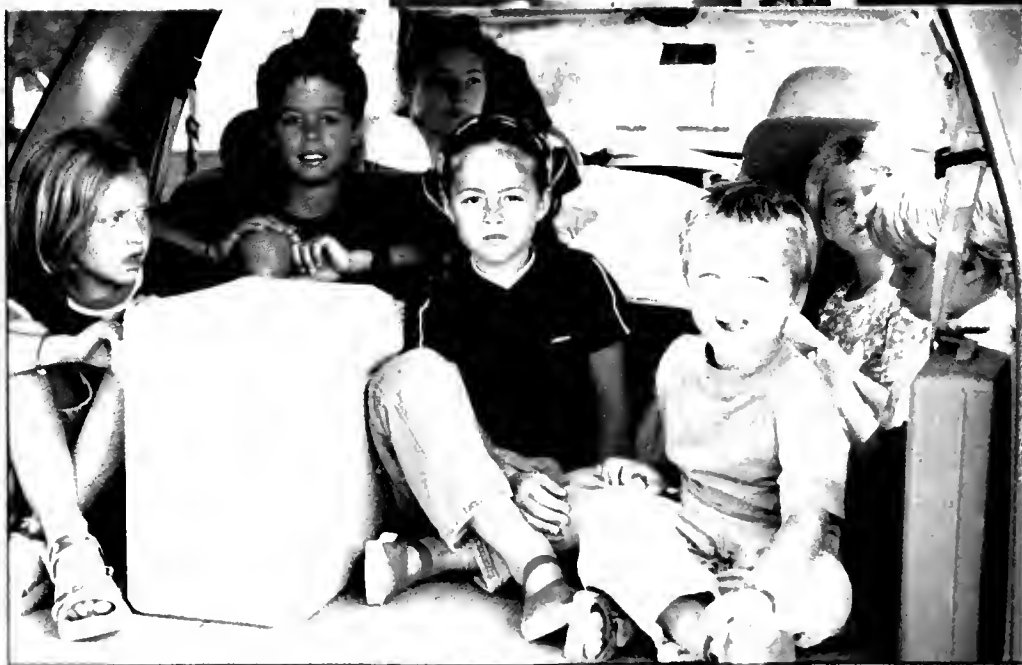
Under this program, the U. S. Department of Housing and Urban Development (HUD) provides mortgage insurance for multifamily housing projects that have loans underwritten, processed and funded by the MBOH. HUD and the MBOH share the risk of the mortgage.

Elderly Assistance Program

The Elderly Assistance Program offers reverse annuity mortgages (RAMs) to eligible senior Montanans. The RAMs, which are 10-years loans, let the eligible seniors convert the equity in their homes into cash - all while retaining homeownership.

RAMs work much like traditional mortgages, only in reverse. Rather than making a payment to a lender each month, the lender (MBOH in this case) pays the eligible participant. Unlike conventional home equity loans, a RAM from the MBOH does not require any repayment of principal or interest for as long as the participant lives in the home.

More detailed information about the Multifamily Program can be found on the attached disk.





Accounting and Reporting

*T*he accounting and reporting personnel at the Montana Board of Housing manage approximately 10,150 mortgages totaling over \$609 million. This includes reconciling all mortgages on a monthly basis from reports received from 40 contracted loan servicers.

In fiscal year 2004, the staff also accounted for \$148.5 million in mortgage prepayments and repayments according to indenture direction. The staff accounts for principal and interest on bonds payable for approximately \$632 million in 23 bond issues. In addition, the staff processed \$158 million in bond calls and maturities and accounted for investment purchases of approximately \$1.3 billion and maturities and sales of approximately \$1.3 billion.





Statement of Revenues, Expenses and Changes in Fund Balances

These condensed financial statements are based on audited financial statements. Complete audit reports are available in the accompanying disk, at our Web site at <http://housing.mt.gov> or upon request.

MONTANA BOARD OF HOUSING: A COMPONENT UNIT OF THE STATE OF MONTANA STATEMENT OF NET ASSETS AS OF JUNE 30, 2004 AND 2003

Assets	FY 2004	FY 2003
Current Assets		
Cash and Cash Equivalents	\$ 7,264,131	\$ 7,756,487
Investments	46,340,278	32,975,198
Mortgage Loans Receivable	10,584,633	10,296,404
Interest Receivable	4,075,113	5,028,326
Due from Primary Government	1,073	2,634
Prepaid Expense	181,418	174,625
Total Current Assets	<u>\$ 68,446,646</u>	<u>\$ 56,233,674</u>
Noncurrent Assets		
Investments	\$ 94,134,509	\$ 114,774,824
Mortgage Loans Receivable	598,746,710	582,059,142
Deferred Bond Issuance Costs, Net	6,284,313	6,304,050
Capital Assets, Net	75,617	113,761
Total Noncurrent Assets	<u>\$ 699,241,149</u>	<u>\$ 703,251,777</u>
TOTAL ASSETS	<u><u>\$ 767,687,795</u></u>	<u><u>\$ 759,485,451</u></u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 335,522	\$ 476,111
Due to Primary Government	26,777	27,733
Due to Other Component Units	4,873	3,648
Property Held in Trust	683,005	709,505
Accrued Interest - Bonds Payable	3,003,280	3,422,051
Bonds Payable, Net	7,781,560	9,168,966
Arbitrage Rebate Payable to U.S. Treasury Department	47,955	463,413
Accrued Compensated Absences	53,702	57,263
Total Current Liabilities	<u>\$ 11,936,674</u>	<u>\$ 14,328,690</u>
Noncurrent Liabilities		
Bonds Payable, Net	\$ 624,673,559	\$ 616,381,498
Deferred Refunding Costs	(1,500,335)	(1,461,389)
Arbitrage Rebate Payable to U.S. Treasury Department	975,054	673,315
Accrued Compensated Absences	48,820	33,498
Total Noncurrent Liabilities	<u>\$ 624,197,098</u>	<u>\$ 615,626,922</u>
TOTAL LIABILITIES	<u><u>\$ 636,133,772</u></u>	<u><u>\$ 629,955,612</u></u>
NET ASSETS		
Invested in Capital Assets, Net	\$ 75,617	\$ 113,761
Restricted for Bondholders:		
Unrealized (losses) gains on investments	1,574,795	3,805,542
Single Family Programs	79,865,024	91,857,673
Various Recycled Mortgage Programs	37,136,710	21,898,843
Multifamily Programs	8,415,832	7,985,246
Multifamily Project Commitments	235,011	244,644
Reverse Annuity Mortgage Program	1,830,631	1,500,125
Restricted for Affordable Revolving Loan Program	2,420,403	1,759,005
Revolving Loan Program Commitments	-	365,000
TOTAL NET ASSETS	<u><u>\$ 131,554,023</u></u>	<u><u>\$ 129,529,839</u></u>



MONTANA BOARD OF HOUSING: A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED
JUNE 30, 2004 AND 2003

	FY 2004	FY 2003
Interest Income - Mortgage Loans	\$ 36,103,048	\$ 40,852,401
Interest Income - Investments	8,415,136	9,655,738
Fee Income	214,712	229,872
Federal Financial Assistance	251,451	242,171
Net Increase (Decrease) in Fair Value of Investments	(2,230,748)	2,300,207
Grants and Contributions	265,625	42,733
Other Income	313	9,896
Total Operating Revenues	\$ 43,019,537	\$ 53,333,018
Interest on Bonds	\$ 34,848,147	\$ 39,405,348
Servicer Fees	2,157,072	2,301,388
Contracted Services	616,917	551,173
Amortization of Bond Issuance Costs	508,279	462,583
General and Administrative	1,323,782	1,301,403
Arbitrage Rebate Expense	303,526	299,970
Loss on Redemption	1,237,630	1,038,054
Total Operating Expenses	\$ 40,995,353	\$ 45,359,919
Operating Income / Increase in Net Assets	2,024,184	7,973,099
Net Assets, Beginning of Year	129,529,839	121,556,740
Net Assets, End of Year	\$ 131,554,023	\$ 129,529,839



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Montana Board of Housing

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Further information on our programs
may be obtained by writing:

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We make every effort to ensure our documents
are fully accessible to persons with disabilities.
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